



# China Nepstar Chain Drugstore Ltd.

NYSE:NPD

Presentation to Investors  
March 2010



# Safe Harbor

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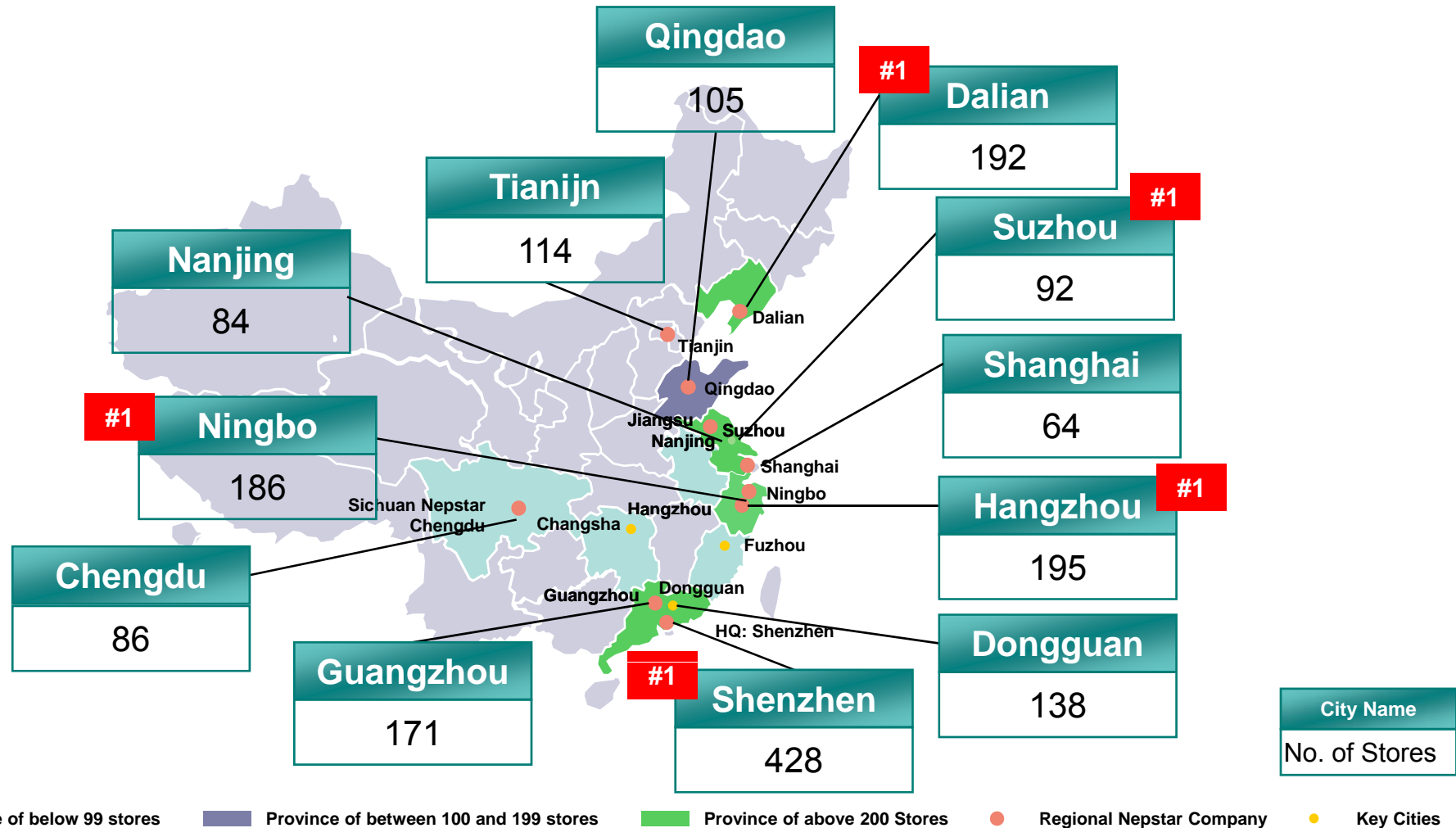
This presentation contains forward-looking statements. These statements constitute “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar statements. Among other things, the quotations from management in this press release and the Company’s strategic operational plans, contain forward-looking statements. Such statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Further information regarding these and other risks is included in the Company’s filings with the U.S. Securities and Exchange Commission, including its annual report on Form 20-F. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.



# Company Overview

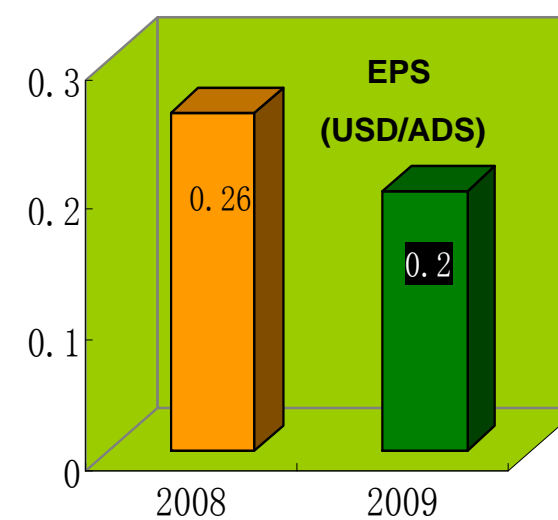
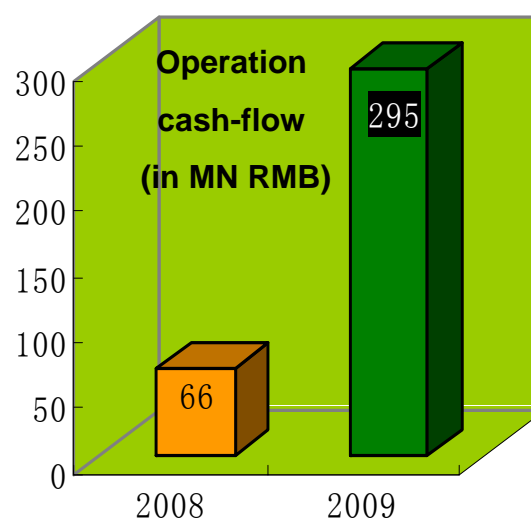
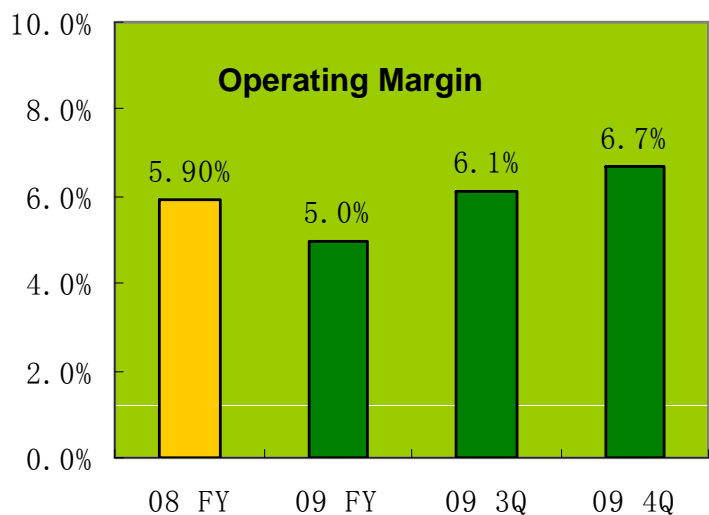
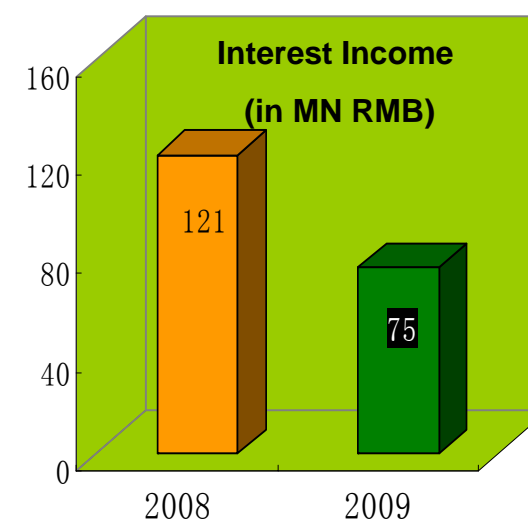
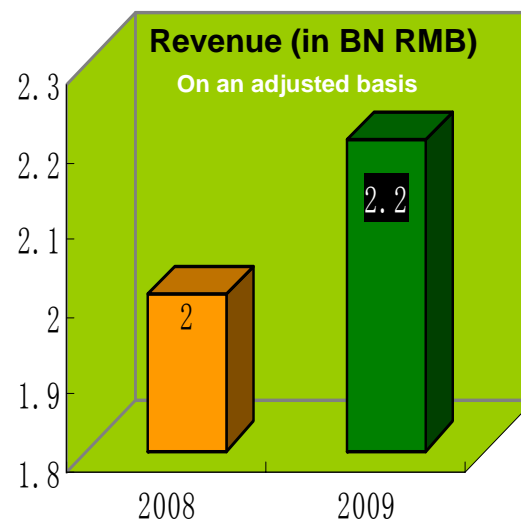
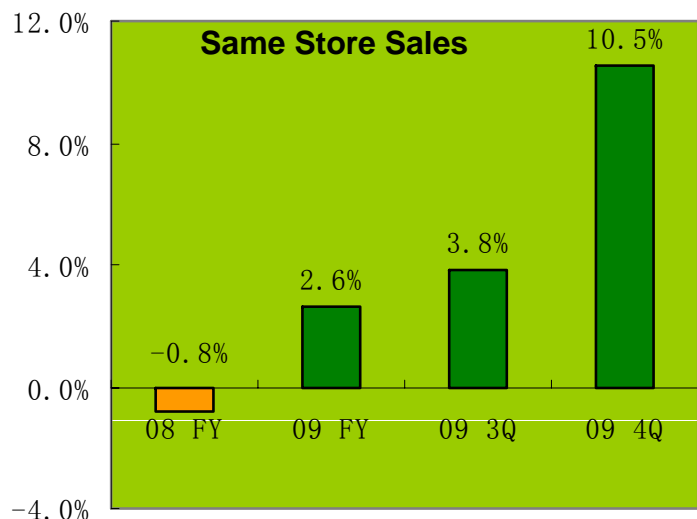
<b>Who We Are</b>	<ul style="list-style-type: none"><li>● We are China's largest drugstore chain by the number of directly operated stores</li><li>● Awarded "Best Drugstore Chain of 2007 in China" by China Drugstore magazine</li></ul>
<b>Our Retail Network*</b>	<ul style="list-style-type: none"><li>● 2,479 directly operated drug stores</li><li>● National presence in 71 cities</li></ul> <p style="text-align: right;"><i>(*As of December 31, 2009)</i></p>
<b>Our Business Model</b>	<ul style="list-style-type: none"><li>● Neighborhood drugstore of 80-120sqm in size</li><li>● Directly operated stores to ensure consistent service standard</li><li>● Optimized product offerings including private label products</li></ul>
<b>Our Propositioning</b>	<ul style="list-style-type: none"><li>● Leading drugstore brand with absolute quality assurance</li><li>● Your Neighborhood drugstore--convenient</li><li>● Wide variety of offerings of health-related products with professional service</li></ul>

# Leading Brand with National Footprint



Note: No. of stores as of December 31, 2009

# Financial Snapshots of 2009



## Strong Balance Sheet

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- **Cash and Cash Equivalents: 666MN RMB;**
- **Restricted Cash: 765MN RMB (restriction released by now)**
- **Long term bank deposit: 200MN RMB**
- **Held to Maturity Securities: 400MN RMB (matured in Jan, 2010);**

**TOTAL: 1,831MN RMB**

*(\*Balance Sheet, as of December 31, 2009)*

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- **Strong cash flow from operating activities;**
- **No Debt;**
- **Annual dividend of 0.28USD/ADS announced.**

# Store Economics

- Cash break-even achieved once new stores reach daily revenue of above 1,750RMB/Day

New Store Break-Even Model in Y09			(monthly in RMB)	Economics for a typical store			(monthly in RMB)
Revenue	52,500	(1,750RMB/Store/Day)		Revenue	75,000	(2,500RMB/Store/Day)	
Gross Profit	<u>25,200</u>	(Gross margin 48%)		Gross Profit	<u>36,000</u>	(Gross margin 48%)	
Labor	-10,000	(2,000RMB / person, 5 store staff)		Labor	-12,000	(2,000RMB / person, 6 store staff)	
Rental & Utility	-12,000			Rental & Utility	-11,000		
D&A	-1,667			D&A	-1,667		
Miscellaneous	-1,500			Miscellaneous	-1,500		
TTL Expenses	<u>-25,167</u>			TTL Expenses	<u>-26,167</u>		
				<div style="background-color: #008080; color: white; padding: 5px; border-radius: 10px; display: inline-block;"> <b>NOPAT/store/month =7,000 RMB</b> </div>			

## Unique Operation Environment

Hospital pharmacy still dominates the market; policies moving towards separating drug prescribing from drug dispensing

Pharmaceutical retailing industry is highly fragmented as well as crowded

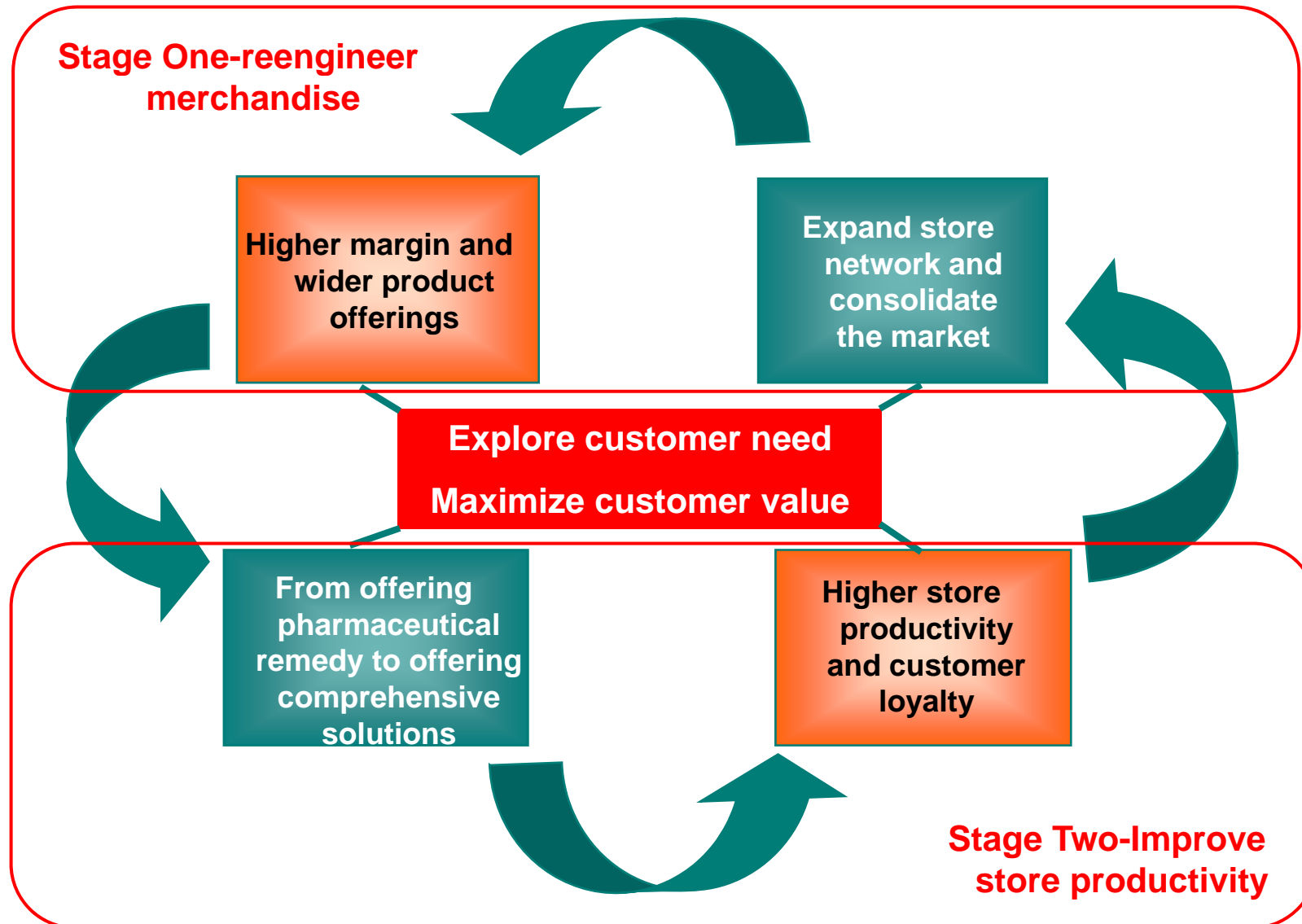
Long industry value chain with manufacturing and wholesaling both fragmented

Pharmaceuticals are mostly paid out-of-pocket

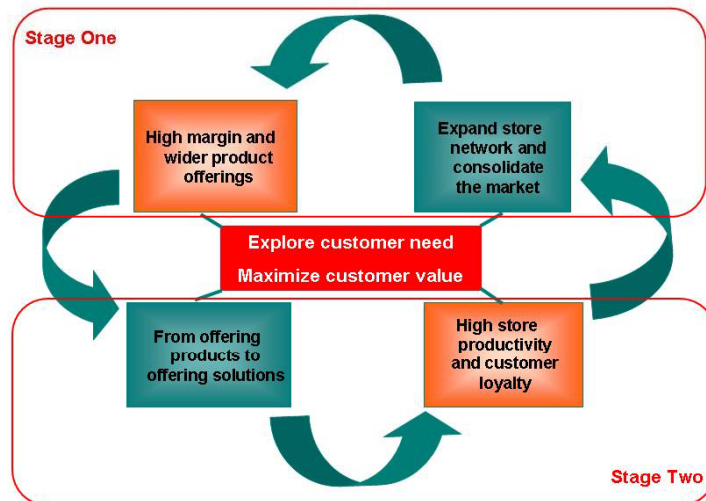
Front-end sales gradually tie in with the growth of retail pharmacy

High entry barriers for foreign players

# Overall Business Strategy



# Reengineer Product Offering

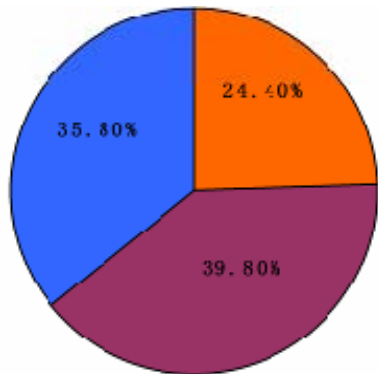


## Stage One – Reengineer Product Offering

Optimizing product offering to realize high margin through central procurement and private labeling

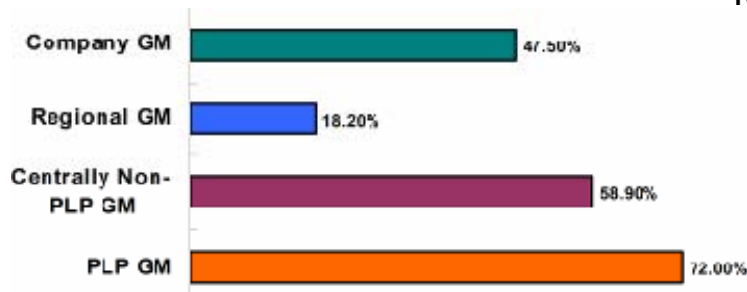
# Reengineer Product Offering

## Central Procurement Margin Contribution

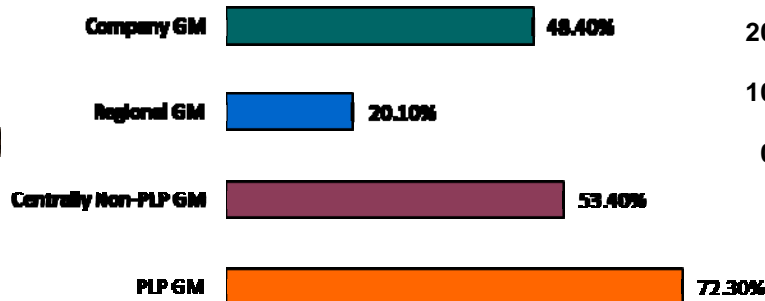


Revenue contribution

### Y2008

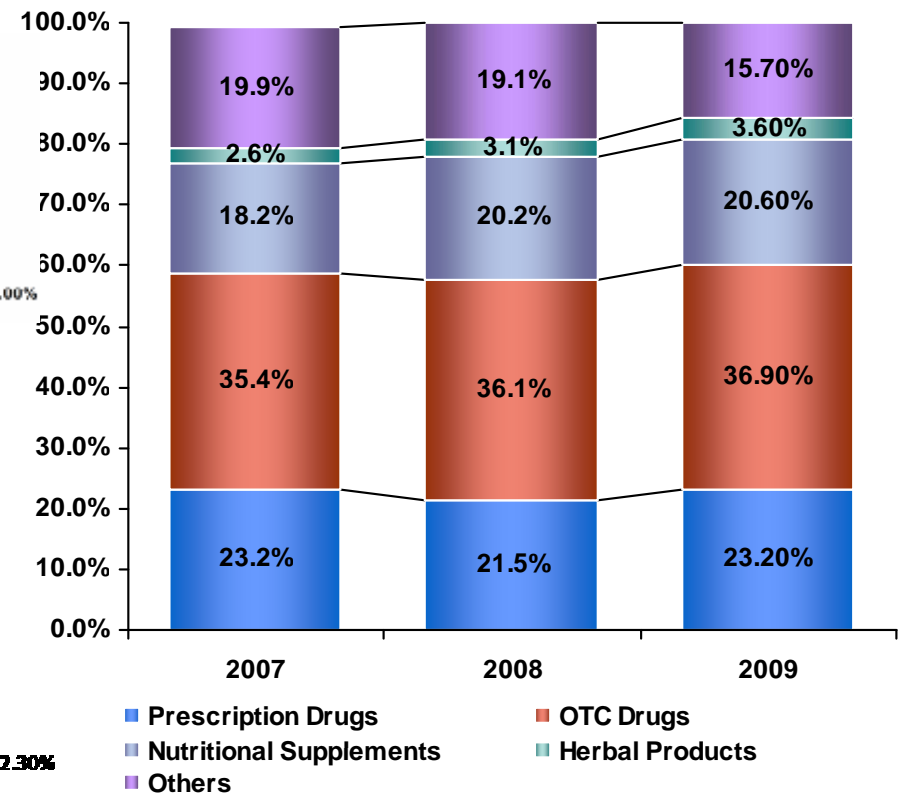


### Y2009

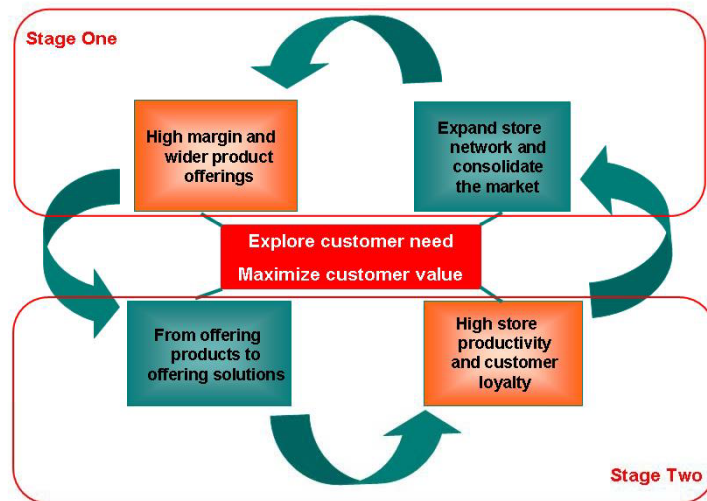


Revenue contribution

## Optimized product offering



# Improve Store Productivity


































## Stage Two – Improve Store Productivity

Introducing more health-related non-pharmaceutical products and offering comprehensive solutions

# Satisfy the needs of Community Customers

Nepstar is well-positioned to provide comprehensive health and beauty solutions and satisfy community customers' demand of convenience.

<b>Community Customers' Needs</b> 	<b>Hospital pharmacy</b> 	<b>Mom &amp; pop's</b> 	<b>Chain pharmacies</b> 	<b>Beauty shops</b> 	
<b>Quality assurance</b>					
<b>Wide range of pharmaceutical products</b>					
<b>Professional healthcare assistance</b>					
<b>Attractive selection of nutrients and personal care products</b>					
<b>Accessibility and convenience</b>					

## Meet the Challenges this Year

- **Unpredictable retail environment**
  - ▶ Radical competition persists
  - ▶ Population loss not yet fully recovered in cities relying on export manufacturing
- **Uncertainties brought by the new healthcare reform**
  - ▶ Generally favorable
  - ▶ Local execution and interpretation may vary
  - ▶ Increasing gross margin pressure due to pricing caps

**Carefully control the new store opening pace and actively seek synergetic acquisitions**

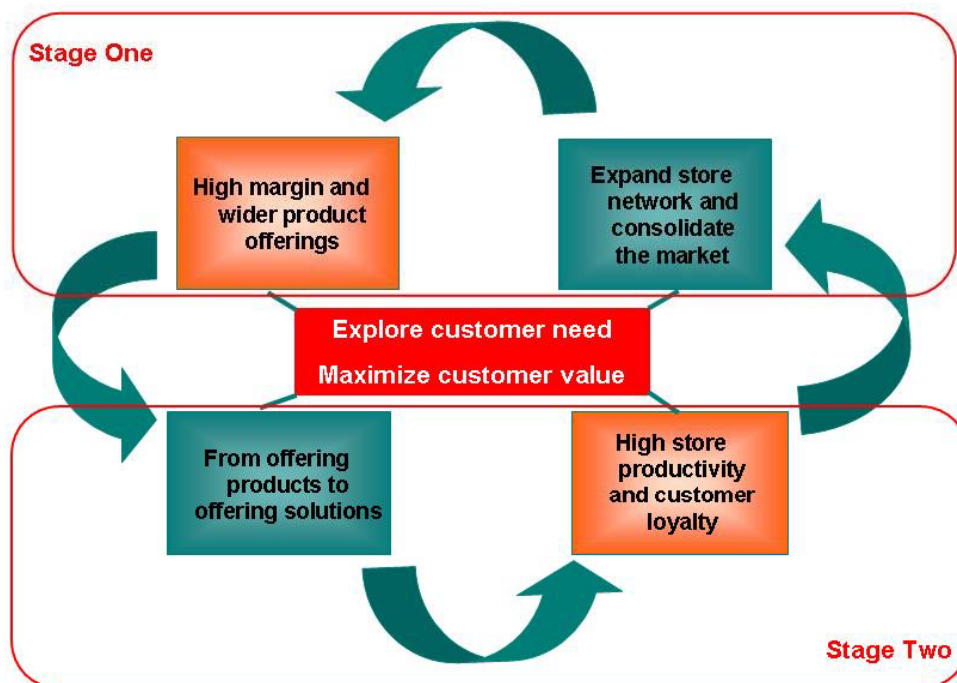
**Focus on improving operation efficiency of existing stores**

**Improve store productivity by introducing more health-related non-pharmaceutical products**

**Adjust pricing strategy to drive traffic while as adhere to the central procurement strategy**

# Business Outlook

**Adapt to the evolving operational environment, enhance store profitability, and further strengthen leading position in China**



- **Expand store network organically and through synergetic acquisition**

- **Leveraging on procurement scale to maintain high gross margin**

- **Explore customer need and provide total health solution to realize high store productivity**



# Questions and Answers

**China Nepstar Chain Drugstore Ltd.**